

Growing with the nation



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Financial Highlights

	2006	2005	2004 **	2003	2002
	RM million	RM million	RM million	RM million	RM million
RESULTS					
Operating revenue	190.5	189.6	231.4	136.1	116.8
Profit before taxation	41.9	33.9	34.0	25.7	23.7
Net profit for the financial year	30.1	24.2	25.2	18.3	16.9
Dividends - Net	21.9*	21.6	18.0	23.4	14.4
BALANCE SHEETS					
Share capital	100.0	100.0	100.0	100.0	100.0
Shareholders' Fund	142.0	133.5	127.3	120.1	118.0
Total Assets	306.9	290.7	273.8	237.8	219.5
RATIOS					
Dividend per share Gross - sen	30.0 *	30.0	25.0	32.5	20.0
Net tangible assets per share - (RM)	1.42	1.34	1.27	1.20	1.18

* Subject to the approval of shareholders at the forthcoming Annual General Meeting.

** The company changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.

Financial Highlights (continued)

Operating revenue (RM million)

'06	190.5
'05	189.6
'04	231.4 **
'03	136.1
'02	116.8

Profit before taxation (RM million)

'06	41.9
'05	33.9
'04	34.0 **
'03	25.7
'02	23.7

Net profit for the financial year (RM million)

'06	30.1
'05	24.2
'04	25.2 **
'03	18.3
'02	16.9

Share capital (RM million)

'06	100.0
'05	100.0
'04	100.0
'03	100.0
'02	100.0

Shareholders' fund (RM million)

'06	142.0
'05	133.5
'04	127.3
'03	120.1
'02	118.0

Total assets (RM million)

'06	306.9
'05	290.7
'04	273.8
'03	237.8
'02	219.5

** The company changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.

Corporate Information

as at 26 March 2007

BOARD OF DIRECTORS

YBhg Dato' Mohd Salleh Hj Harun

Independent Non-Executive
Chairman

YBhg Dato' Vaseehar Hassan Abdul Razack

Non-Independent Non-Executive
Director

YBhg Dato' Mohamed Khadar Merican

Independent Non-Executive
Director

Tuan Haji Khairuddin Ahmad

Independent Non-Executive
Director

Mr Lim Cheng Yeow

Independent Non-Executive
Director

COMPANY SECRETARY

Encik Azman Shah Md
Yaman

AUDIT COMMITTEE

YBhg Dato' Mohamed
Khadar Merican
Chairman

Tuan Haji Khairuddin Ahmad

Mr Lim Cheng Yeow

RISK MANAGEMENT COMMITTEE

Tuan Haji Khairuddin Ahmad
Chairman

YBhg Dato' Mohamed
Khadar Merican

Mr Lim Cheng Yeow

INVESTMENT COMMITTEE

YBhg Dato' Mohd Salleh
Hj Harun
Chairman

YBhg Dato' Mohamed
Khadar Merican

Koh Heng Kong

SENIOR MANAGEMENT

Koh Heng Kong
Chief Executive Officer

Mohammed Mudathir
Mohammed Muzammil
General Manager

Winnie Tan
General Manager

Choo Seng Poh
Senior Technical Advisor

Chan Meng Onn
Assistant General Manager

Richard Chen
Assistant General Manager

HEAD OF DEPARTMENTS

Vasanthakumari Balasundram
Claims

Abdul Latiff Mohd Ismail
Broking

Junaili Abdul Hamid
Groups

Wahizan Abdul Wahid
Risk Management (Underwriting)

Corporate Information

as at 26 March 2007 (continued)

Vivience Lee
Marketing & Sales Support (CRM)

Vincent Ong
Information Technology &
Business Support

Trina Yee
Reinsurance

Yee Chee Loong
Agency

Ng Seng Khin
Accounts

Muhammad Hafiz Abas
Enterprise-wide Risk Management

Ahmad Zaidi Khairuddin
Compliance

Shirleen Gan
Direct Marketing & Bancassurance

Lancy How Soo Kut
Credit Control

Wong Chin Yee
Methods & Systems

BRANCH MANAGERS

Norman Michael Tan
Penang

Vivience Lee
Kajang

Raymond Ho Hee Ming
Ipoh

Abdul Rashid Bakar
Kuantan

Soh Jiun Hong
Johor Bahru

Jeff Toh Kim Chai
Kota Kinabalu

Lai Kian Hing
Sandakan

Sebastian Lo Ming Kong
Sibu

Louis Teoh Choon Hoe
Melaka

Sulaiman Abdul Razak
Kota Bharu

Wong Shon Kwong
Kuching

David Choe Kim Ong
Klang

REGISTERED OFFICE

Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603-9285 2233
Fax : 603-9281 9314

PRINCIPAL PLACE OF BUSINESS

Level 8, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
or
P.O Box 10835
50400 Kuala Lumpur
Tel : 603-92812731
Fax : 603-92812729

COMPANY NO.

38000-U

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
11th Floor,
Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur
Malaysia.

Profile of the Board of Directors

as at 26 March 2007

YBHG DATO' MOHD SALLEH HJ HARUN

(62 years of age – Malaysian) Independent Non-Executive Chairman

YBhg Dato' Mohd Salleh Hj Harun (“YBhg Dato' Mohd Salleh”) was appointed as an Independent Non-Executive Director of RHB Insurance on 23 August 2004. He was appointed as Chairman of RHB Insurance on 15 September 2004. He also serves as the Chairman of the Investment Committee of RHB Insurance.

YBhg Dato' Mohd Salleh is a Fellow of the Institute of Bankers and also a Member of the Malaysian Institute of Certified Public Accountants.

YBhg Dato' Mohd Salleh has 32 years of experience in the banking and financial sector, having held various senior positions in Aseambankers Malaysia Berhad and Malayan Banking Berhad. He was the Executive Director of Malayan Banking Berhad from 1994 to 2000 prior to joining Bank Negara Malaysia, whereat he served as Deputy Governor from 2000 to 2004.

YBhg Dato' Mohd Salleh's other directorships in public companies include RHB Capital Berhad, RHB Bank Berhad, RHB Islamic Bank Berhad, Titan Chemical Corp. Bhd and Scicom MSC Berhad.

Profile of the Board of Directors

as at 26 March 2007 (continued)

YBHG DATO' MOHAMED KHADAR MERICAN

(50 years of age – Malaysian) Independent Non-Executive Director

YBhg Dato' Mohamed Khadar Merican ("YBhg Dato' Khadar") was appointed as an Independent Non-Executive Director of RHB Insurance on 7 July 2003. He also serves as the Chairman of the Audit Committee, a Member of the Investment Committee and Risk Management Committee of RHB Insurance.

YBhg Dato' Khadar is a Member of the Institute of Chartered Accountants in England and Wales and is also a Member of the Malaysian Institute of Accountants. He was a past President of the Malaysian Association of Hotel Owners.

YBhg Dato' Khadar has had more than 20 years of experience in financial and general management. He served as an auditor and a consultant in an international accounting firm, before joining a financial services group in 1986. YBhg Dato' Khadar has held various senior managerial positions in Pernas International Holdings Berhad, a company listed on the Main Board of Bursa Malaysia Securities Berhad between 1988 and April 2003, including those of President and Chief Operating Officer. He currently manages his own financial consultancy practice.

YBhg Dato' Khadar's other directorships in public companies include Rashid Hussain Berhad, RHB Investment Bank Berhad (formerly known as RHB Sakura Merchant Bankers Berhad), RHB Bank Berhad, RHB Unit Trust Management Berhad and Astro All Asia Network plc.

Profile of the Board of Directors

as at 26 March 2007 (continued)

YBHG DATO' VASEEHAR HASSAN ABDUL RAZACK

(55 years of age – Malaysian) Non-Independent Non-Executive Director

YBhg Dato' Vaseehar Hassan Abdul Razack ("YBhg Dato' Vaseehar Hassan") was appointed as a Non-Independent Non-Executive Director of RHB Insurance on 4 June 2003.

YBhg Dato' Vaseehar Hassan who has a Bachelor Degree in Accounting, Masters in Business Administration as well as Specialised Masters in Consulting and Coaching is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam.

YBhg Dato' Vaseehar Hassan has more than 26 years of experience in the financial sector. In addition to being the Chief Executive and Director of the Malaysian subsidiary of Dallah AlBaraka Group of Saudi Arabia, he is also a Director of Rashid Hussain Berhad, RHB Capital Berhad, RHB Bank Berhad, RHB Investment Bank Berhad (formerly known as RHB Sakura Merchant Bankers Berhad), RHB Islamic Bank Berhad (Chairman), Utama Banking Group Berhad, CMS Trust Management Berhad and Ingress Corporation Berhad. He is also a Member of the International Advisory Panel of the World Islamic Economic Forum.

Profile of the Board of Directors

as at 26 March 2007 (continued)

TUAN HAJI KHAIRUDDIN AHMAD

(64 years of age – Malaysian) Independent Non-Executive Director

Tuan Haji Khairuddin Ahmad (“Tuan Haji Khairuddin”) was appointed as an Independent Non-Executive Director of RHB Insurance on 28 June 2004. He also serves as Chairman of the Risk Management Committee and a Member of the Audit Committee of RHB Insurance.

Tuan Haji Khairuddin attended the Advance Management Course at Columbia Business School in New York, USA.

Tuan Haji Khairuddin began his career in the banking industry and was previously with Citibank N.A., Southern Bank Berhad, Bank of Commerce Berhad and Arab Malaysian Finance Berhad.

Tuan Haji Khairuddin’s other directorships in public companies include RHB Bank Berhad and RHB Unit Trust Management Berhad.

Profile of the Board of Directors

as at 26 March 2007 (continued)

MR LIM CHENG YEOW

(72 years of age – Malaysian) Independent Non-Executive Director

Mr Lim Cheng Yeow (“Mr Lim”) was appointed as an Independent Non-Executive Director of RHB Insurance on 28 June 2004. He also serves as a Member of the Audit Committee and Risk Management Committee of RHB Insurance.

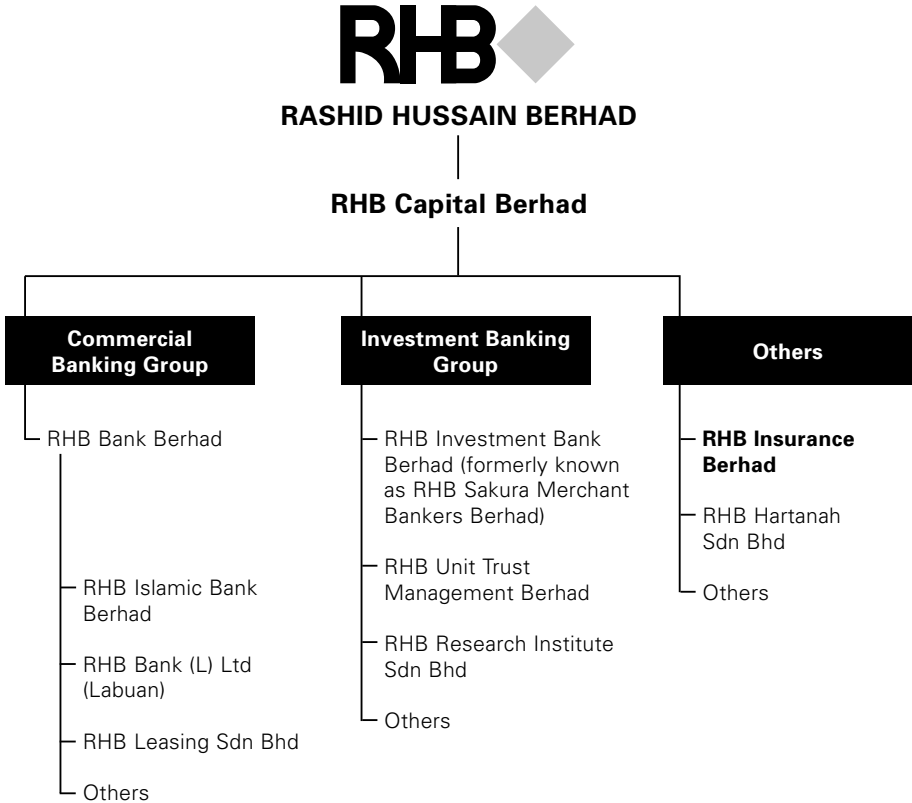
Mr Lim holds a Master of Arts in Economics from Cambridge University.

Mr Lim has over 45 years of experience in the banking and finance related services. He began his career in the banking industry with Malayan Banking Berhad in 1960, whereat he served in various executive positions including Deputy Chief Internal Auditor, Chief Internal Auditor and Head Regional Branch Operations prior to his retirement in 1990.

Mr Lim’s current directorships in public companies include RHB Unit Trust Management Berhad and Rock Chemical Industries (Malaysia) Berhad.

RHB Group Corporate Structure

as at 26 March 2007



Statutory Financial Statements

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Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITY

The Company is engaged principally in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

FINANCIAL RESULTS

	RM
Net profit for the financial year	30,073,431
Retained earnings brought forward	33,515,331
Profits available for appropriation	<u>63,588,762</u>
Dividends	<u>(21,600,000)</u>
Retained earnings carried forward	<u><u>41,988,762</u></u>

DIVIDENDS

The dividends paid or declared by the Company since 31 December 2005 are as follows:

	RM
A final dividend of 30% less tax at 28% for the financial year ended 31 December 2005, paid on 28 April 2006.	<u>21,600,000</u>

The Directors now recommend the payment of a final gross dividend in respect of the financial year ended 31 December 2006 of 30% on 100,000,000 ordinary shares, less income tax at 27%, amounting to RM21,900,000, subject to the approval of members at the forthcoming Annual General Meeting of the Company. If approved, the final dividend will be paid on a date to be determined later.

Directors' Report (continued)

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

PROVISION FOR OUTSTANDING CLAIMS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including Incurred But Not Reported ("IBNR") claims.

BAD AND DOUBTFUL DEBTS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors of the Company are not aware of any circumstances that would render the amount written off for bad debts or the amounts of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that any current assets, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

Directors' Report (continued)

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secure the liabilities of any other person, or
- (b) any contingent liability in respect of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, that would render any amount stated in the financial statements misleading.

Directors' Report (continued)

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

CORPORATE GOVERNANCE

Introduction

As part of the ongoing measures to raise corporate governance standards in the conduct of insurance business, Bank Negara Malaysia ("BNM") has developed a Prudential Framework of Corporate Governance for Insurance Companies ("the Framework") which was issued as JPI/GPI 25 (Consolidated) for adoption by insurers. The primary objective of the Framework is to enhance the corporate accountability of insurers and promote the interests of their stakeholders, specifically those of policy owners, claimants and creditors. The Framework establishes basic principles of good corporate governance which focus on the processes and structures used to direct and manage the business and affairs of insurers.

The Directors are committed to ensure that the highest standards of corporate governance are practised by the Company as a fundamental part of discharging their responsibilities in order to promote the interests of stakeholders and enhance shareholders' value.

Board Responsibility And Oversight

The Board of Directors comprises five non-executive Directors, four of whom are independent. The Board of Directors is qualified and has wide business and financial experience to effectively provide directions in terms of corporate objectives and business strategies.

8 meetings were held during the financial year ended 31 December 2006.

Directors' Report (continued)

CORPORATE GOVERNANCE (CONTINUED)

Board Responsibility And Oversight (Continued)

The details of attendance of each Director at Board meetings held during the financial year are set out below:

No	Name of Directors	Total meetings attended	Percentage of attendance (%)
1	Dato' Mohd Salleh bin Hj Harun	8/8	100.0
2	Dato' Mohamed Khadar bin Merican	8/8	100.0
3	Dato' Vaseehar Hassan bin Abdul Razack	6/8	75.0
4	Mr Lim Cheng Yeow	6/8	75.0
5	Haji Khairuddin bin Ahmad	8/8	100.0

Each Director is required, pursuant to BNM Guidelines [JPI/GPI 25 (Consolidated)], to attend at least 75% of board meetings. All Directors of the Company complied with this requirement for the financial year ended 31 December 2006.

The Company has continued to utilise the Nominating Committee and Remuneration and Human Resource Committee of its holding company, RHB Capital Berhad, to undertake the role of the Company's Nominating Committee and Remuneration and Human Resource Committee respectively, to be responsible for proposing new nominees for appointment to the Board and the development of relevant policies on the remuneration of Directors and senior management executives.

Directors' Report (continued)

CORPORATE GOVERNANCE (CONTINUED)

Board Responsibility And Oversight (Continued)

The Nominating Committee and Remuneration and Human Resource Committee of RHB Capital Berhad currently comprise the following members:

Nominating Committee

- 1 Dato' Mohd Salleh bin Hj Harun (*Chairman/Independent Non-Executive Director*)
- 2 Datuk Azlan bin Mohd Zainol (*Member/ Non-Independent Non-Executive Director*)
- 3 Dato' Vaseehar Hassan bin Abdul Razack (*Member/Non-Independent Non-Executive Director*)
- 4 Encik Johari bin Abdul Muid (*Member/ Non-Independent Non-Executive Director*)
- 5 Mr Lew Foon Keong (*Member/Independent Non-Executive Director*)

Remuneration and Human Resource Committee

- 1 Mr Lew Foon Keong (*Chairman/Independent Non-Executive Director*)
- 2 Dato' Vaseehar Hassan bin Abdul Razack (*Member/Non-Independent Non-Executive Director*)
- 3 Encik Johari bin Abdul Muid (*Member/Non-Independent Non-Executive Director*)

The Company has established its own Audit Committee on 24 February 2005 pursuant to the revised BNM Guidelines (Revised JPI/GPI 13) which inter-alia required an insurer to have its own Audit Committee that is separate from that of the group. The members of the Company's Audit Committee were appointed on 30 March 2005 and it comprises the following members:

Audit Committee

- 1 Dato' Mohamed Khadar bin Merican (*Chairman/Independent Non-Executive Director*)
- 2 Mr Lim Cheng Yeow (*Member/Independent Non-Executive Director*)
- 3 Haji Khairuddin bin Ahmad (*Member/Independent Non-Executive Director*)

Directors' Report (continued)

CORPORATE GOVERNANCE (CONTINUED)

Board Responsibility And Oversight (Continued)

The Company's Risk Management Committee comprises the following members:

Risk Management Committee

- 1 Haji Khairuddin bin Ahmad (*Chairman/Independent Non-Executive Director*)
- 2 Dato' Mohamed Khadar bin Merican (*Member/Independent Non-Executive Director*)
- 3 Mr Lim Cheng Yeow (*Member/Independent Non-Executive Director*)

The primary objective of the Risk Management Committee is to oversee the Senior Management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

The Company will continually improve in the methodology to identify and monitor risks. Management has adopted a holistic approach to risk management to capture and monitor risks in a systematic way.

Management Accountability

The Company has a well-documented and updated organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees. Management obtains a quarterly declaration from staff on adherence to the insurance industry's Code of Ethics.

Policies and procedures are documented in the operating manuals for all the core functions of the Company such as underwriting, claims, reinsurance and finance. Monthly meetings are scheduled for Senior Management and various working committees i.e. Technical, Marketing, Information Technology Review and Credit Control to communicate on the affairs and operations of the Company. In addition, regular departmental/branch meetings are also held to discuss each operating unit's affairs and to communicate relevant information to staff.

Directors' Report (continued)

CORPORATE GOVERNANCE (CONTINUED)

Corporate Independence

The related party transactions are on terms and conditions no more favourable than those available on similar transactions to the Company's other customers. All material related party transactions have been disclosed in the financial statements.

Internal Controls And Operational Risk Management

The Directors acknowledge their responsibility for the system of internal controls maintained by the Company and for reviewing its effectiveness. The system of internal controls covers not only financial controls but also operational and compliance controls as well as risk management. The system, by its nature, can only provide reasonable but not absolute assurance against misstatement, loss or fraud.

The Board maintains a control-conscious culture across all areas of operations in the Company. There is an on-going process for identifying, evaluating and managing all significant risks faced by the Company which will be regularly reviewed by the Board.

The Group's internal audit regularly reports on compliance with the system of internal controls and procedures to the Management, Audit Committee and the Board. There are also procedures for external auditors to report conclusions and recommendations to the Management, Audit Committee and the Board.

The Group's internal audit will ensure that recommendations to improve controls are followed through by the Management on a timely manner.

Public Accountability

The Company upholds the principles of fairness and professionalism in the conduct of its business. The requirement of a written disclosure in insurance policies pertaining to the existence of the Insurance Mediation Bureau ("IMB") and BNM's Customer Service Bureau ("CSB") is effected on all new and renewal policies issued. The notice will inform the policyholders on the procedures for complaints to the IMB and CSB of any unfair market practices.

Directors' Report (continued)

CORPORATE GOVERNANCE (CONTINUED)

Financial Reporting

The Management ensures that proper records are maintained to support all financial transactions and the financial statements are prepared in accordance with MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. In accordance with Section 95(1) of the Insurance Act 1996, on a yearly basis, the statutory financial statements are published in two local newspapers within fourteen days of the Annual General Meeting.

The Board and Senior Management receive regular financial and management reports to enable them to effectively monitor the financial performance and condition of the Company in relation to the corporate objectives and responsibilities.

The Management ensures that the monthly and annual returns are submitted to BNM on a timely basis.

DIRECTORS AND THEIR INTERESTS IN SECURITIES

The Directors who have held office during the year since the date of the last report are:

Dato' Mohd Salleh bin Hj Harun
Dato' Mohamed Khadar bin Merican
Dato' Vaseehar Hassan bin Abdul Razack
Mr Lim Cheng Yeow
Haji Khairuddin bin Ahmad

In accordance with Article 74 of the Company's Articles of Association, Haji Khairuddin bin Ahmad retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Mr Lim Cheng Yeow retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Directors' Report (continued)

DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

According to the register of directors' shareholdings, the interests of the Directors in office at the end of the financial year in the securities of the Company and its related corporations were as follows:

Number of ordinary shares of RM1 each				
Ultimate Holding Company	As at			As at
Rashid Hussain Berhad	1.1.2006	Bought	Sold	31.12.2006
Dato' Vaseehar Hassan bin Abdul Razack				
– Indirect ¹	238,127,000	–	–	238,127,000
Dato' Mohamed Khadar bin Merican				
– Direct	5,000	–	–	5,000

Number of ordinary shares of RM1 each				
Holding Company	As at			As at
RHB Capital Berhad	1.1.2006	Bought	Sold	31.12.2006
Dato' Vaseehar Hassan bin Abdul Razack				
– Indirect ²	1,182,896,459	–	(2,000,000)	1,180,896,459
Haji Khairuddin bin Ahmad				
– Direct	15,000	–	–	15,000
Dato' Mohamed Khadar bin Merican				
– Direct	10,000	–	–	10,000
Dato' Mohd Salleh bin Hj Harun				
– Direct	15,000	–	–	15,000

Directors' Report (continued)

DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

**Nominal Amount (RM) of 2002/2012
0.5% Irredeemable Convertible Unsecured Loan Stocks
of RM1.00 each nominal value ('RHB ICULS-A')**

Ultimate Holding Company	As at			As at
Rashid Hussain Berhad	1.1.2006	Bought	Sold	31.12.2006
Dato' Vaseehar Hassan bin Abdul Razack				
– Indirect ¹	449,206,479	–	–	449,206,479

Each RHB ICULS-A entitles the registered holder of the RHB ICULS-A to convert into one (1) new ordinary share of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.00 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting the RHB ICULS-A dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-A equal to the Conversion Price.

**Nominal Amount (RM) of 2002/2012
3.0% Irredeemable Convertible Unsecured Loan Stocks
of RM1.00 each nominal value ('RHB ICULS-B')**

Ultimate Holding Company	As at			As at
Rashid Hussain Berhad	1.1.2006	Bought	Sold	31.12.2006
Dato' Vaseehar Hassan bin Abdul Razack				
– Indirect ¹	403,471,898	–	–	403,471,898

Directors' Report (continued)

DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

Each RHB ICULS-B entitles the registered holder of the RHB ICULS-B to convert into one (1) new ordinary share of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.13 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting RHB ICULS-B dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-B which equal to the Conversion Price or a combination of such nominal value of RHB ICULS-B and cash which aggregates to the Conversion Price, provided that at least RM1.00 nominal value of RHB ICULS-B is surrendered for conversion into one (1) New Share.

Number of Warrants 1999/2009

Ultimate Holding Company	As at 1.1.2006	Bought	Sold	As at 31.12.2006
Rashid Hussain Berhad				
Haji Khairuddin bin Ahmad				
– Direct	5,000	–	–	5,000

Every twenty (20) Warrants 1999/2002 entitle the registered holder to 7 new Warrants 1999/2002 shares held at the issue price of RM0.10 per warrant at any time of from the date of issue on 17 August 1999 at an initial exercise price of RM4.35 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 23 June 1999. Pursuant to a Supplemental Deed Poll dated 20 March 2002, the exercise period of the Warrants 1999/2002 has been extended by approximately seven (7) years to expire on 16 August 2009 and the Warrants 1999/2002 are now known as Warrants 1999/2009.

Number of Warrants 1997/2007

Ultimate Holding Company	As at 1.1.2006	Bought	Sold	As at 31.12.2006
Rashid Hussain Berhad				
Haji Khairuddin bin Ahmad				
– Indirect ³	3,000	–	–	3,000

Directors' Report (continued)

DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

Each Warrant 1997/2002 entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time within a period of four and three quarter (4^{3/4}) years from the date of issue on 25 June 1997 at an exercise price of RM18.30 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll created on 25 June 1997. Pursuant to a Supplemental Deed Poll executed on 23 June 1999, the exercise period for the Warrants 1997/2002 was extended by five (5) years to expire on 24 March 2007 and the Warrants 1997/2002 are now known as Warrants 1997/2007.

Ultimate Holding Company	Number of Warrants 2001/2007			As at 31.12.2006
	As at 1.1.2006	Bought	Sold	
Dato' Vaseehar Hassan bin Abdul Razack				
– Indirect ¹	8,000,000	–	–	8,000,000
Haji Khairuddin bin Ahmad				
– Indirect ³	13,000	–	–	13,000

Each warrant of Rashid Hussain Berhad ('Warrants 2001/2002') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time from the date of issue on 4 April 2001 at an exercise price of RM1.90 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 13 February 2001. Pursuant to a Supplemental Deed Poll dated 20 March 2002, the exercise period of the Warrants 2001/2002 has been extended by five (5) years to expire on 24 March 2007 and the Warrants 2001/2002 are now known as Warrants 2001/2007.

Directors' Report (continued)

DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

Notes:

- 1 *Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Utama Banking Group Berhad ("UBG").*
- 2 *Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in the ultimate holding company, Rashid Hussain Berhad.*
- 3 *Indirect interest held by family members.*

By virtue of his indirect substantial interest in the shares of Rashid Hussain Berhad ("RHB"), Dato' Vaseehar Hassan bin Abdul Razack is also deemed to have an indirect substantial interest in the securities of the Company and all the subsidiary companies of RHB to the extent RHB has an interest.

Other than the above, none of the other Directors in office at the end of the financial year held any interest in the shares in or debentures of the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related company with a Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except that certain Directors received remuneration from the Company's holding company and other related corporations.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Report (continued)

HOLDING AND ULTIMATE HOLDING COMPANIES

The holding company is RHB Capital Berhad and the Directors regard Rashid Hussain Berhad as the ultimate holding company. Both companies are incorporated in Malaysia.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 22 January 2007.

DATO' MOHD SALLEH BIN HJ HARUN

CHAIRMAN

DATO' VASEEHAR HASSAN BIN ABDUL RAZACK

DIRECTOR

Kuala Lumpur
28 February 2007

Balance Sheet

as at 31 December 2006

	Note	2006 RM	2005 RM
ASSETS			
Property, plant and equipment	6	3,755,784	4,248,008
Investments	7	268,857,902	257,771,406
Deferred tax assets	8	767,000	1,148,000
Loans	9	982,406	1,061,795
Receivables	10	32,470,666	26,284,958
Cash and cash equivalents	11	54,005	154,565
Total assets		306,887,763	290,668,732
LIABILITIES			
Provision for outstanding claims	12	88,183,803	80,153,326
Payables	13	24,913,106	24,218,425
Current tax liabilities		3,164,702	2,879,908
		116,261,611	107,251,659
Unearned premium reserves	14	48,637,390	49,901,742
Total liabilities		164,899,001	157,153,401
SHAREHOLDERS' FUND			
Share capital	15	100,000,000	100,000,000
Retained earnings	16	41,988,762	33,515,331
		141,988,762	133,515,331
Total liabilities and shareholders' fund		306,887,763	290,668,732

The accompanying notes form an integral part of these financial statements.

Income Statement

for the financial year ended 31 December 2006

	Note	2006 RM	2005 RM
Operating revenue	17	190,462,674	189,598,450
Surplus transferred from Revenue Account		41,847,120	33,836,510
Non-insurance fund:			
Management expenses	18	(5,350)	(5,350)
Investment income	19	35,910	33,576
Profit before taxation		41,877,680	33,864,736
Taxation	21	(11,804,249)	(9,655,033)
Net profit for the financial year		30,073,431	24,209,703
Earnings per share (sen)	22	30.07	24.21
Dividend per share (sen)	23	30.00	30.00

The accompanying notes form an integral part of these financial statements.

General Insurance Revenue Account

for the financial year ended 31 December 2006

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Gross premium		68,126,807	49,132,173	6,823,098	55,218,069	179,300,147
Less: Reinsurance		(29,064,253)	(2,997,877)	(2,195,257)	(19,470,927)	(53,728,314)
Net premium		<u>39,062,554</u>	<u>46,134,296</u>	<u>4,627,841</u>	<u>35,747,142</u>	<u>125,571,833</u>
Less:						
(Increase)/decrease in unearned premium reserves	14	(293,262)	1,166,313	(163,583)	554,884	1,264,352
Earned premium		<u>38,769,292</u>	<u>47,300,609</u>	<u>4,464,258</u>	<u>36,302,026</u>	<u>126,836,185</u>
Net claims incurred	24	(11,857,740)	(26,547,748)	(4,048,985)	(18,870,604)	(61,325,077)
Net commission		<u>(2,671,825)</u>	<u>(4,355,819)</u>	<u>(266,241)</u>	<u>(5,395,583)</u>	<u>(12,689,468)</u>
Underwriting surplus before management expenses		<u>24,239,727</u>	<u>16,397,042</u>	<u>149,032</u>	<u>12,035,839</u>	<u>52,821,640</u>
Management expenses	18					<u>(28,037,044)</u>
Underwriting surplus						<u>24,784,596</u>
Investment income	19					<u>11,126,617</u>
Other income – net	20					<u>5,935,907</u>
Transfer to Income Statement						<u>41,847,120</u>

The accompanying notes form an integral part of these financial statements.

General Insurance Revenue Account

for the financial year ended 31 December 2005

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Gross premium		67,497,963	48,849,166	5,780,358	57,098,956	179,226,443
Less: Reinsurance		(30,020,915)	(3,062,762)	(1,830,551)	(21,029,923)	(55,944,151)
Net premium		<u>37,477,048</u>	<u>45,786,404</u>	<u>3,949,807</u>	<u>36,069,033</u>	<u>123,282,292</u>
Less:						
Increase in unearned premium reserves	14	(1,593,080)	(5,226,956)	(342,664)	(2,275,374)	(9,438,074)
Earned premium		<u>35,883,968</u>	<u>40,559,448</u>	<u>3,607,143</u>	<u>33,793,659</u>	<u>113,844,218</u>
Net claims incurred	24	(11,666,911)	(27,203,376)	1,633,631	(16,532,770)	(53,769,426)
Net commission		(927,978)	(4,484,708)	(338,401)	(4,520,397)	(10,271,484)
Underwriting surplus before management expenses		<u>23,289,079</u>	<u>8,871,364</u>	<u>4,902,373</u>	<u>12,740,492</u>	<u>49,803,308</u>
Management expenses	18					(26,056,710)
Underwriting surplus						<u>23,746,598</u>
Investment income	19					10,338,431
Other expense – net	20					(248,519)
Transfer to Income Statement						<u>33,836,510</u>

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

for the financial year ended 31 December 2006

Note	Issued and fully paid ordinary shares RM1 each		Distributable	Total RM
	No. of shares RM	Nominal value RM	Retained earnings RM	
2006				
At beginning of the financial year	100,000,000	100,000,000	33,515,331	133,515,331
Net profit for the financial year	-	-	30,073,431	30,073,431
Dividends for financial year ended				
- 31 December 2005 (final)	23	-	(21,600,000)	(21,600,000)
At end of the financial year	100,000,000	100,000,000	41,988,762	141,988,762
2005				
At beginning of the financial year	100,000,000	100,000,000	27,305,628	127,305,628
Net profit for the financial year	-	-	24,209,703	24,209,703
Dividends for financial period ended				
- 31 December 2004 (final)		-	(18,000,000)	(18,000,000)
At end of the financial year	100,000,000	100,000,000	33,515,331	133,515,331

The accompanying notes form an integral part of these financial statements.

Cash Flow Statement

for the financial year ended 31 December 2006

	Note	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the financial year		30,073,431	24,209,703
Adjustments for:			
Profit on sale of investments		(3,615,862)	(1,362,146)
(Write back of)/allowance for diminution in value of investments		(2,131,844)	1,968,908
Allowance for bad and doubtful debts		278,768	686,353
Amortisation of premiums net of accretion of discounts		263,939	76,709
Depreciation of property, plant and equipment		1,175,884	1,479,783
Profit on sale of property, plant and equipment		(21,622)	(200,954)
(Decrease)/increase in unearned premium reserves		(1,264,352)	9,438,074
Investment income		(11,426,466)	(10,448,716)
Unrealised loss/(gain) on foreign exchange		1,669	(6,406)
Taxation expense		11,804,249	9,655,033
Operating profit before changes in operating assets and liabilities		25,137,794	35,496,341

Cash Flow Statement

for the financial year ended 31 December 2006 (continued)

	Note	2006 RM	2005 RM
Operating profit before changes in operating assets and liabilities		25,137,794	35,496,341
Purchase of investments		(76,653,320)	(167,022,138)
Proceeds from sale of investments		79,742,625	166,286,040
Interest received		9,389,217	8,879,028
Dividend received		1,771,563	1,740,799
Increase in fixed and call deposits		(8,692,034)	(21,318,266)
Decrease/(increase) in loans		79,389	(373,313)
(Increase)/decrease in amounts due from insureds, agents, brokers and reinsurers		(6,990,520)	589,758
Decrease in other receivables		790,101	396,881
Increase/(decrease) in provision for outstanding claims		8,030,477	(4,403,458)
(Decrease)/increase in amounts due to insureds, agents, brokers and reinsurers		(969,163)	2,636,768
Increase in other payables		1,663,844	349,179
Cash generated from operations		33,299,973	23,257,619
Income taxes paid		(11,138,455)	(5,557,525)
Net cash generated from operating activities	25	22,161,518	17,700,094
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(684,969)	(1,545,465)
Proceeds from sale of property, plant and equipment		22,931	207,885
Net cash used in investing activities	25	(662,038)	(1,337,580)

Cash Flow Statement

for the financial year ended 31 December 2006 (continued)

	Note	2006 RM	2005 RM
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(21,600,000)	(18,000,000)
Net cash used in financing activities	25	(21,600,000)	(18,000,000)
<hr/>			
Effects of exchange rate changes on cash and cash equivalents	25	(40)	1,405
<hr/>			
NET DECREASE IN CASH AND CASH EQUIVALENTS		(100,560)	(1,636,081)
<hr/>			
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		154,565	1,790,646
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CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	11	54,005	154,565
<hr/>			

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

31 December 2006

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The Company, a public limited liability company, incorporated and domiciled in Malaysia, is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The holding company is RHB Capital Berhad and the Directors regard Rashid Hussain Berhad as the ultimate holding company. Both companies are incorporated in Malaysia.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, that are approved by Bank Negara Malaysia ("BNM") under Section 90 of the Insurance Act, 1996, the provisions of the Companies Act, 1965, the Insurance Act, 1996 and relevant Guidelines/Circulars issued by BNM.

The preparation of financial statements in conformity with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities that are approved requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Notes to the Financial Statements

31 December 2006 (continued)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(a) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments to published standards and IC interpretations to existing standards effective and applicable for the Company's financial period beginning on or after 1 January 2006 are as follows:

- FRS 1 First-time Adoption of Financial Reporting Standards
- FRS 2 Share Based Payment
- FRS 3 Business Combinations
- FRS 5 Non-current Assets Held for Sale and Discontinued Operations
- FRS 101 Presentation of Financial Statements
- FRS 102 Inventories
- FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 110 Events After the Balance Sheet Date
- FRS 116 Property, Plant and Equipment
- FRS 121 The Effect of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- FRS 128 Investments in Associates
- FRS 131 Interests in Joint Ventures
- FRS 132 Financial Instruments: Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets
- FRS 138 Intangible Assets
- FRS 140 Investment Property
- Amendment to FRS 119₂₀₀₄ Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures – in relation to the 'asset ceiling' test
- IC 107 Introduction of the Euro
- IC 110 Government Assistance – No specific Relation to Operating Activities
- IC 112 Consolidation – Special Purpose Entities
- IC 113 Jointly Controlled Entities – Non-Monetary Contributions by Venturers

Notes to the Financial Statements

31 December 2006 (continued)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(a) Standards, amendments to published standards and interpretations that are effective (continued)

- IC 115 Operating Leases – Incentives
- IC 121 Income Taxes – Recovery of Revalued Non-Depreciable Assets
- IC 125 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
- IC 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IC 129 Disclosure – Service Concession Arrangements
- IC 131 Revenue – Barter Transactions Involving Advertising Services
- IC 132 Intangible Assets – Web Site Costs

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations adopted by the Company require retrospective application other than:

- FRS 2 – retrospectively application for equity granted after 31 December 2004 and not vested as at 1 January 2006;
- FRS 3 – prospectively for business combinations for which the agreement date is on or after 1 January 2006;
- FRS 5 – prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on/after 1 January 2006;
- FRS 116 – the exchange of property, plant and equipment is accounted at fair value prospectively;
- FRS 121 – prospectively accounting for goodwill and fair value adjustments as part of foreign operations;
- FRS 140 – prospectively accounting for investment property at fair value.

A summary of the impact of the new accounting standards, amendments to published standards and interpretations to existing standards on the financial statements of the Company is set out in Note 27.

Notes to the Financial Statements

31 December 2006 (continued)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and IC interpretations to existing standards that are not yet effective and have not been early adopted

The new standards and amendments to published standards and IC interpretations that are mandatory for the Company's financial periods beginning on or after 1 January 2007 or later periods, but which the Company has not early adopted, are as follows:

- *FRS 117 Leases (effective for accounting periods beginning on or after 1 October 2006).*

This standard requires the classification of leasehold land as prepaid lease payments. The Company will apply this standard from financial periods beginning on 1 January 2007.

- *FRS 124 Related Party Disclosures (effective for accounting periods beginning on or after 1 October 2006).*

This standard will affect the identification of related parties and some other related party disclosures. The Company will apply this standard from financial periods beginning on 1 January 2007.

- *Amendment to FRS 119₂₀₀₄ Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective for accounting period beginning on or after 1 January 2007).*

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for its multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Company currently does not have any defined benefits plans but will apply the amendment if applicable, from financial periods beginning on 1 January 2007.

Notes to the Financial Statements

31 December 2006 (continued)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and IC interpretations to existing standards that are not yet effective and have not been early adopted (continued)

- *FRS 139 Financial Instruments : Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standards Board).*

This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Company will apply this standard when effective.

(c) Standards that are not yet effective and not relevant for the Company's operations

- FRS 6 Exploration for and Evaluation of Mineral Resources (effective for accounting periods beginning on or after 1 January 2007). FRS 6 is not relevant to the Company's operations as the Company does not carry out exploration or and evaluation of mineral resources.

3 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Accounting convention

The financial statements are prepared under the historical cost convention, unless otherwise indicated in the accounting policies below.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement or revenue account during the financial period in which they are incurred.

Long term leasehold land and buildings are depreciated on the straight line method over the terms of the respective leases, which range from 80 to 95 years. Other property, plant and equipment are depreciated on the straight line method to write off the cost of the property, plant and equipment to their residual values over their estimated useful lives which range from 3 to 5 years.

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See Note 3 (e) on the impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement or revenue account.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investments

Malaysian Government Securities and other investments as specified by BNM are stated at cost, adjusted for the amortisation of premiums or accretion of discounts calculated on an effective yield basis from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the income statement or revenue account.

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments except that if diminution in value of a particular investment is not regarded as temporary, allowance is made against the value of that investment.

Unquoted investments are stated at cost and an allowance for diminution in value is made, where in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Such a decline is recognised as an expense in the financial year in which the decline is identified.

Gains and losses arising on disposals of investments are credited or charged to the income statement or revenue account.

(d) Investment income

Interest on loans is recognised on the accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six months, in which case, recognition of such interest is suspended. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

Other interest income, including the amount of amortisation of premiums or accretion of discounts, is recognised on a time proportion basis that takes into account the effective yield of the asset.

Dividend income is recognised when the right to receive payment is established.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of non-financial assets

The carrying values of assets that are subject to amortisation are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the fair value less cost to sell and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Non-financial assets that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss is charged to the income statement or revenue account immediately.

A subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement or revenue account immediately.

(f) Allowance for bad and doubtful debts

Known bad debts are written off and allowance is made for any debt considered to be doubtful of collection. In addition, an allowance is made for any premiums, including agents' and reinsurers' balances, which remain outstanding for more than six months from the date on which they become receivable, except for outstanding motor premiums for which allowance is made for amounts outstanding for more than 30 days.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account, reinsurances, commissions, unearned premiums and claims incurred.

Premium income

Premium income is recognised on the date of assumption of risk. Premiums in respect of risks incepted for which policies have not been raised as of the balance sheet date are accrued at the date.

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relate.

Unearned premium reserves

Unearned premium reserves ("UPR") represent the portion of premium income not yet earned at the balance sheet date. UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) time apportionment method for non-annual policies reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM;
- (iii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) General insurance underwriting results (continued)

Provision for claims

Provision is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the balance sheet date. Provision is also made for the cost of claims together with related expenses incurred but not reported ("IBNR") at the balance sheet date, based on an actuarial valuation by an independent actuary.

Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premium is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

Inward treaty business

Premiums, claims and other transactions of inward treaty business are accounted for in the revenue account as and when the statements of account are received.

(h) Foreign currencies

(i) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement or revenue account.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Income taxes

Current income tax is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise mainly from depreciation of property, plant and equipment, accretion of discounts/amortisation of premiums, general allowance for doubtful debts, unearned premium reserves, provision for gratuities and allowance for diminution in value of investments.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

(j) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, and bonuses are accrued in the financial year in which the associated services are rendered by employees of the Company.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(ii) Post-employment benefits – Defined contribution plan

The Company contributes to the Employees' Provident Fund, the national defined contribution plan. The Company's contributions to the defined contribution plan are charged to the income statement or revenue account in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(k) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the revenue account or income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

(l) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

Notes to the Financial Statements

31 December 2006 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Contingent liabilities and contingent assets (continued)

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

(n) Dividends

Dividends on ordinary shares are recognised as liabilities when the obligation to pay is established.

(o) Financial instruments

The basis of estimation of fair values for financial instruments is as follows:

- (i) The fair values of Malaysian Government Securities are based on the indicative middle prices obtained from Bank Negara Malaysia.
- (ii) The fair values of corporate debt securities are based on quotations from merchant bankers.
- (iii) The fair values of quoted shares, warrants, loan stocks and Real Estate Investment Trusts (REITs) are based on the quoted market price.
- (iv) The fair values of loans are based on the discounted cash flows by using the interest rates at valuation date on similar loans.
- (v) The carrying amounts of other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

Notes to the Financial Statements

31 December 2006 (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

- The estimation of pipeline premiums, i.e. premiums incepted for which the policies have not been issued is based on the actual pipeline premiums in prior years adjusted for recent trend and events.
- Incurred but not reported ('IBNR') claims are estimated based on the chain ladder method using cumulated incurred claims. The underlying assumptions of the method are that the claims reporting patterns and the reserving practices of the Company are stable. The method also implicitly assumes that the past inflation patterns will continue into future projected years. The estimation is performed by an independent external actuary.

(b) Critical judgement in applying the entity's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Company. However, the Directors are of the view that there are currently no accounting policies which require significant judgement to be exercised.

Notes to the Financial Statements

31 December 2006 (continued)

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company carries out its financial risk management through internal control procedures, standard operating procedures, investment guidelines and strategies, and adherence to all rules and regulations as stipulated by the guidelines for investments issued by BNM.

Arising from the Company's financial instruments, the main financial risks which the Company is exposed to are interest rate risk, market risk, credit risk, liquidity risk and currency risk.

(a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to the potential adverse changes in market interest rates.

Interest rate risk has an impact on the market values of investments in equities, REITs, fixed income securities and fixed deposits. The Company manages this risk by adopting a diversified approach to investment portfolios to achieve a desired overall interest rate profile based on regular reviews of interest rate outlook and economic condition.

(b) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of the potential adverse changes in market prices.

The Company's investments in equities, REITs and fixed income securities are outsourced to professional fund managers. To deal with this risk, the Investment Committee oversees the formulation of investment policies and strategies. During the financial year ended 31 December 2006, the Investment Committee held 9 meetings to review and monitor the performance of the fund managers.

Notes to the Financial Statements

31 December 2006 (continued)

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet payment obligations.

The Investment Committee manages the credit risk associated with investments by setting guidelines on minimum credit ratings and prevent risk concentrations by setting maximum credit exposure for each class of investment and for any one borrower or group of borrowers.

A credit control committee has been established to manage the credit risk of receivables.

(d) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments and obligations when they fall due.

This is managed by monitoring the daily and monthly projected and actual cash flows, and ensuring that a reasonable quantum of financial assets is maintained in liquid instruments at all times.

(e) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.

The Company's exposure to currency risk is confined to a current account maintained with a bank in Singapore and certain expenses denominated in foreign currency. The current account was opened to facilitate the collection of premiums from reinsurers in Singapore and the amount involved is very minimal.

Notes to the Financial Statements

31 December 2006 (continued)

6 PROPERTY, PLANT AND EQUIPMENT

	Long term leasehold land and buildings RM	Motor vehicles RM	Furniture, fixtures and fittings, office equipment RM	Total RM
2006				
Net book value				
At beginning of financial year	1,045,184	867,468	2,335,356	4,248,008
Additions	–	45,719	639,250	684,969
Disposals	–	(1,309)	–	(1,309)
Depreciation charge	(13,077)	(39,152)	(1,123,655)	(1,175,884)
At end of financial year	1,032,107	872,726	1,850,951	3,755,784
2005				
Net book value				
At beginning of financial year	1,058,259	982,699	2,148,299	4,189,257
Additions	–	204,760	1,340,705	1,545,465
Disposals	–	–	(6,931)	(6,931)
Depreciation charge	(13,075)	(319,991)	(1,146,717)	(1,479,783)
At end of financial year	1,045,184	867,468	2,335,356	4,248,008
At 31 December 2006				
Cost	1,152,255	1,722,293	12,374,211	15,248,759
Accumulated depreciation	(120,148)	(849,567)	(10,523,260)	(11,492,975)
Net book value	1,032,107	872,726	1,850,951	3,755,784
At 31 December 2005				
Cost	1,152,255	1,742,407	11,840,743	14,735,405
Accumulated depreciation	(107,071)	(874,939)	(9,505,387)	(10,487,397)
Net book value	1,045,184	867,468	2,335,356	4,248,008

Notes to the Financial Statements

31 December 2006 (continued)

7 INVESTMENTS

	2006		2005	
	Cost RM	Market Value RM	Cost RM	Market Value RM
Malaysian Government Securities	22,467,700		22,467,700	
Amortisation of premiums	(137,518)		(36,896)	
	22,330,182	22,100,000	22,430,804	22,133,800
Quoted in Malaysia:				
Shares of corporations	39,974,192	42,817,384	40,139,916	37,991,143
Loan stocks of a corporation	-	-	60,000	60,000
Real Estate Investment Trusts	1,190,221	1,173,292	346,399	387,347
	41,164,413	43,990,676	40,546,315	38,438,490
Allowance for diminution in value	(16,929)		(2,148,773)	
	41,147,484		38,397,542	
Unquoted:				
Corporate debt securities	82,540,452		82,912,939	
Amortisation of premiums net of accretion of discounts	(65,473)		(183,102)	
	82,474,979		82,729,837	
Fixed and call deposits with:				
Licensed banks	108,514,280		54,673,375	
Licensed finance companies	-		59,005,848	
Other corporations	14,390,977		534,000	
	122,905,257		114,213,223	
TOTAL INVESTMENTS	268,857,902		257,771,406	

Notes to the Financial Statements

31 December 2006 (continued)

7 INVESTMENTS (CONTINUED)

The maturity structure of Malaysian Government Securities, loan stocks, corporate debt securities and fixed and call deposits above is as follows:

	2006 RM	2005 RM
Maturity within 12 months	136,300,209	116,219,487
Maturity after 12 months	91,410,209	103,214,377
	227,710,418	219,433,864

8 DEFERRED TAX ASSETS

	2006 RM	2005 RM
At beginning of financial year	1,148,000	365,000
(Debited)/credited to income statement (Note 21)	(381,000)	783,000
At end of financial year	767,000	1,148,000

The movements in deferred tax assets during the financial year comprise the tax effects of the following:

	At beginning of financial year RM	(Debited)/ credited to income statement RM	At end of financial year RM
2006			
Excess of capital allowances over depreciation	(267,000)	26,000	(241,000)
Amortisation of premiums net of accretion of discounts	61,000	(4,000)	57,000
General allowance for doubtful debts	645,000	184,000	829,000
Unearned premium reserves	17,000	(2,000)	15,000
Provisions	91,000	11,000	102,000
Allowance for diminution in value of investments	601,000	(596,000)	5,000
Total	1,148,000	(381,000)	767,000

Notes to the Financial Statements

31 December 2006 (continued)

8 DEFERRED TAX ASSETS (CONTINUED)

	At beginning of financial year RM	(Debited)/ credited to income statement RM	At end of financial year RM
2005			
Excess of capital allowances over depreciation	(211,000)	(56,000)	(267,000)
Amortisation of premiums net of accretion of discounts	(190,000)	251,000	61,000
General allowance for doubtful debts	746,000	(101,000)	645,000
Unearned premium reserves	(114,000)	131,000	17,000
Provisions	84,000	7,000	91,000
Allowance for diminution in value of investments	50,000	551,000	601,000
Total	<u>365,000</u>	<u>783,000</u>	<u>1,148,000</u>

9 LOANS

	2006 RM	2005 RM
Mortgage loans	459,371	456,065
Other secured loans	521,234	605,063
Unsecured loans	1,801	667
	<u>982,406</u>	<u>1,061,795</u>
Receivable within 12 months	216,707	205,865
Receivable after 12 months	765,699	855,930
	<u>982,406</u>	<u>1,061,795</u>

Notes to the Financial Statements

31 December 2006 (continued)

10 RECEIVABLES

	2006	2005
	RM	RM
Trade receivables		
Outstanding premiums including agents, brokers and co-insurers balances	24,958,884	18,378,658
Allowance for doubtful debts	(2,146,021)	(1,736,342)
	22,812,863	16,642,316
Amount due from reinsurers and ceding companies	6,590,064	6,253,225
Allowance for doubtful debts	(1,938,887)	(2,141,624)
	4,651,177	4,111,601
	27,464,040	20,753,917
Other receivables		
Other receivables, deposits and prepayments	768,558	782,904
Amount due from Malaysian Motor Insurance Pool	1,547,158	1,581,411
Amount due from stock brokers	52,901	794,403
Interest income due and accrued	2,624,187	2,372,323
Dividend income receivable	13,822	–
	5,006,626	5,531,041
	32,470,666	26,284,958

11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

Notes to the Financial Statements

31 December 2006 (continued)

12 PROVISION FOR OUTSTANDING CLAIMS

	2006 RM	2005 RM
Provision for outstanding claims	148,001,804	128,377,798
Less: Recoverable from reinsurers thereon	(59,818,001)	(48,224,472)
Net outstanding claims	88,183,803	80,153,326

13 PAYABLES

	2006 RM	2005 RM
Trade payables		
Amount due to agents, brokers, insureds and co-insurers	5,526,744	5,407,996
Amount due to reinsurers and ceding companies	8,696,781	9,784,692
	14,223,525	15,192,688
Other payables		
Other payables	1,391,973	1,485,065
Cash collaterals held on behalf of insureds	2,090,640	2,023,003
Amount due to stock brokers	1,076,715	21,094
Accrued liabilities	6,130,253	5,496,575
	10,689,581	9,025,737
	24,913,106	24,218,425

Notes to the Financial Statements

31 December 2006 (continued)

14 UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2006					
At beginning of financial year	15,847,186	21,750,441	1,048,154	11,255,961	49,901,742
Increase/ (decrease) in reserves	293,262	(1,166,313)	163,583	(554,884)	(1,264,352)
At end of financial year	16,140,448	20,584,128	1,211,737	10,701,077	48,637,390
2005					
At beginning of financial year	14,254,106	16,523,485	705,490	8,980,587	40,463,668
Increase in reserves	1,593,080	5,226,956	342,664	2,275,374	9,438,074
At end of financial year	15,847,186	21,750,441	1,048,154	11,255,961	49,901,742

15 SHARE CAPITAL

	2006 RM	2005 RM
Ordinary shares of RM1 each:		
Authorised:		
At beginning and end of financial year	100,000,000	100,000,000
Issued and fully paid:		
At beginning and end of financial year	100,000,000	100,000,000

Notes to the Financial Statements

31 December 2006 (continued)

16 RETAINED EARNINGS

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income accounts to pay dividends out of its entire retained earnings as at 31 December 2006.

17 OPERATING REVENUE

	2006	2005
	RM	RM
Gross premium	179,300,147	179,226,443
Investment income (Note 19):		
Insurance fund	11,126,617	10,338,431
Non-insurance fund	35,910	33,576
	190,462,674	189,598,450

18 MANAGEMENT EXPENSES

	2006	2005
	RM	RM
Personnel costs	15,449,376	13,611,480
Establishment costs	3,143,028	3,278,614
Marketing costs	2,935,561	2,910,408
Administrative and general expenses	6,514,429	6,261,558
	28,042,394	26,062,060

Notes to the Financial Statements

31 December 2006 (continued)

18 MANAGEMENT EXPENSES (CONTINUED)

	2006 RM	2005 RM
The above expenditure is further analysed as follows:		
Insurance fund		
Staff salary and bonus	12,362,453	10,864,223
Defined contribution plan	1,929,641	1,680,083
Other staff benefits	1,157,282	1,067,174
Staff costs	15,449,376	13,611,480
Non-Executive Directors' remuneration:		
Fee	320,000	124,795
Other emoluments	200,000	219,986
	520,000	344,781
Auditors' remuneration	68,000	57,000
Rental of offices	1,648,076	1,532,581
Depreciation of property, plant and equipment	1,175,884	1,479,783
Insurance Guarantee Scheme Fund levies	445,177	444,426
Allowance for bad and doubtful debts	278,768	686,353
Other expenses	8,451,763	7,900,306
	28,037,044	26,056,710
Non-insurance fund		
Corporate affairs expenses	5,350	5,350
	28,042,394	26,062,060

The estimated monetary value of benefits provided to a Director during the financial year by way of usage of the Company's assets amounted to RM35,500 (2005: RM32,200).

The remuneration, including benefit-in-kinds, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM596,400 (2005: RM450,800).

Notes to the Financial Statements

31 December 2006 (continued)

19 INVESTMENT INCOME

	2006 RM	2005 RM
Insurance fund		
Interest from:		
Malaysian Government Securities	840,480	706,796
Corporate debt securities	5,215,982	5,016,913
Loans	20,755	16,793
Fixed and call deposits	3,527,954	2,946,439
Amortisation of premiums net of accretion of discounts	(263,939)	(76,709)
Gross dividends from shares quoted in Malaysia	1,785,385	1,728,199
	11,126,617	10,338,431
Non-insurance fund		
Interest from fixed deposits	35,910	33,576
	11,162,527	10,372,007

20 OTHER INCOME/(EXPENDITURE)

	2006 RM	2005 RM
Insurance fund		
Profit on sale of property, plant and equipment	21,622	200,954
Profit on sale of investments	3,615,862	1,362,146
Write back of/(allowance for) diminution in value of investments	2,131,844	(1,968,908)
Sundry income	182,096	162,186
Interest paid to reinsurers	(8,968)	(6,872)
Unrealised (loss)/gain on foreign exchange	(1,669)	6,406
Realised loss on foreign exchange	(4,880)	(4,431)
Other income/(expense) – net	5,935,907	(248,519)

Notes to the Financial Statements

31 December 2006 (continued)

21 TAXATION

	2006	2005
	RM	RM
Malaysian taxation:		
Current taxation	11,423,249	10,438,033
Deferred taxation (Note 8)	381,000	(783,000)
	11,804,249	9,655,033

Current taxation

Current financial year	11,499,000	10,347,000
(Over)/under accrual in respect of prior financial years	(75,751)	91,033

Deferred taxation

Origination and reversal of temporary differences	381,000	(783,000)
	11,804,249	9,655,033

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	2006	2005
	RM	RM
Profit before taxation	41,877,680	33,864,736
Tax calculated at a tax rate of 28% (2005: 28%)	11,725,750	9,482,126
Expenses not deductible for tax purposes	219,321	221,966
Income exempted for tax purposes	(53,818)	(116,425)
Income subject to different tax rate	(11,253)	(23,667)
(Over)/under accrual in respect of prior financial years	(75,751)	91,033
Tax expense	11,804,249	9,655,033

Notes to the Financial Statements

31 December 2006 (continued)

22 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM30,073,431 (2005: RM24,209,703) divided by the number of ordinary shares in issue of 100,000,000 (2005: 100,000,000) during the financial year.

23 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2006 are as follows:

	2006		2005	
	Gross dividend per share	Amount of dividend, net of tax	Gross dividend per share	Amount of dividend, net of tax
	Sen	RM	Sen	RM
Proposed final dividend	30.0	21,900,000	30.0	21,600,000

The Directors recommend the payment of a final gross dividend in respect of the financial year ended 31 December 2006 of 30% on 100,000,000 ordinary shares, less income tax at 27%, amounting to RM21,900,000, subject to the approval of members at the forthcoming Annual General Meeting of the Company. The proposed final dividend will be reflected in the financial statements of the next financial year ending 31 December 2007 when approved by shareholders. If approved, the final dividend will be paid on a date to be determined later.

Notes to the Financial Statements

31 December 2006 (continued)

24 NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2006					
Gross claims paid					
less salvage	28,404,888	29,672,242	2,891,358	25,989,539	86,958,027
Reinsurance					
recoveries	(17,613,407)	(1,560,970)	(822,314)	(13,666,736)	(33,663,427)
Net claims paid	10,791,481	28,111,272	2,069,044	12,322,803	53,294,600
Net outstanding claims:					
At end of financial year	12,376,926	37,039,348	4,350,167	34,417,362	88,183,803
At beginning of financial year	(11,310,667)	(38,602,872)	(2,370,226)	(27,869,561)	(80,153,326)
Net claims incurred	11,857,740	26,547,748	4,048,985	18,870,604	61,325,077

Notes to the Financial Statements

31 December 2006 (continued)

24 NET CLAIMS INCURRED (CONTINUED)

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2005					
Gross claims paid					
less salvage	13,785,651	26,926,873	3,477,029	32,882,357	77,071,910
Reinsurance					
recoveries	(6,237,480)	(1,576,590)	(2,307,376)	(8,777,580)	(18,899,026)
Net claims paid	7,548,171	25,350,283	1,169,653	24,104,777	58,172,884
Net outstanding claims:					
At end of financial year	11,310,667	38,602,872	2,370,226	27,869,561	80,153,326
At beginning of financial year	(7,191,927)	(36,749,779)	(5,173,510)	(35,441,568)	(84,556,784)
Net claims incurred	11,666,911	27,203,376	(1,633,631)	16,532,770	53,769,426

Notes to the Financial Statements

31 December 2006 (continued)

25 CASH FLOW SEGMENT INFORMATION

	2006			2005		
	Insurance	Non-	Total	Insurance	Non-	Total
	fund	insurance		fund	insurance	
	RM	RM	RM	RM	RM	RM
Cash flows from:						
Operating activities	22,169,373	(7,855)	22,161,518	17,723,224	(23,130)	17,700,094
Investing activities	(662,038)	-	(662,038)	(1,337,580)	-	(1,337,580)
Financing activities	-	(21,600,000)	(21,600,000)	-	(18,000,000)	(18,000,000)
Effects of exchange rate changes on cash and cash equivalents	(40)	-	(40)	1,405	-	1,405
Transfer from insurance fund to non-insurance fund	(21,607,855)	21,607,855	-	(18,023,130)	18,023,130	-
	(100,560)	-	(100,560)	(1,636,081)	-	(1,636,081)
Net decrease in cash and cash equivalents	(100,560)	-	(100,560)	(1,636,081)	-	(1,636,081)
Cash and cash equivalents:						
At beginning of financial year	154,565	-	154,565	1,790,646	-	1,790,646
At end of financial year	54,005	-	54,005	154,565	-	154,565

Notes to the Financial Statements

31 December 2006 (continued)

26 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

The significant related parties of, and their relationship with the Company, are as follows:

Related parties	Relationship
RHB Capital Berhad	Holding company
Rashid Hussain Berhad	Parent of holding company
RHB Bank Berhad	Subsidiary of holding company
RHB Hartanah Sdn Bhd	Subsidiary of holding company
RHB Delta Sdn Bhd (Formerly known as RHB Delta Finance Berhad)	Subsidiary of holding company
RHB Securities Sdn Bhd	Subsidiary of holding company

By virtue of being a subsidiary of RHB Capital Berhad and Rashid Hussain Berhad, the Company is deemed related to parties related to RHB Capital Berhad and Rashid Hussain Berhad. The related parties of RHB Capital Berhad and Rashid Hussain Berhad are disclosed in the financial statements of those companies, both companies are incorporated in Malaysia.

The following are the significant related party transactions and balances in respect of transactions entered into during the current financial year. The related party transactions described below were on terms and conditions no more favourable than those available on similar transactions to the Company's other customers.

Notes to the Financial Statements

31 December 2006 (continued)

26 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Related party transactions	Nature of transaction		2006 RM	2005 RM
RHB Bank Berhad	Interest income		1,234,568	530,718
	Insurance premium earned		19,129,599	20,279,758
	Commission paid and payable		(4,988,332)	(3,998,106)
RHB Delta Sdn Bhd (Formerly known as RHB Delta Finance Berhad)	Interest income		-	919,532
	Commission paid and payable		-	(1,033,756)
RHB Securities Sdn Bhd	Insurance premium earned		100,650	714,523
RHB Hartanah Sdn Bhd	Rental expense		(1,177,588)	(1,174,403)
Related party balances	Types of balances	Note	2006 RM	2005 RM
RHB Bank Berhad	Fixed and call deposits	7	45,107,253	13,661,543
	Insurance premium	10	842,778	1,889,986
RHB Delta Sdn Bhd (Formerly known as RHB Delta Finance Berhad)	Fixed and call deposits	7	-	22,505,847
	Interest receivable	10	-	436,535

As at 31 December 2006, Utama Banking Group ('UBG') held 32.6% of the ordinary shares of RM1.00 each in Rashid Hussain Bhd ('RHB') and 449,206,479 of ICULS-A and 403,471,898 of ICULS-B that are presently convertible into ordinary shares of RHB. Pursuant to FRS127₂₀₀₅ which require the consideration of these potential ordinary shares, UBG's interest in RHB would amount to 61.2%. The related parties of UBG are disclosed in UBG's financial statements.

Notes to the Financial Statements

31 December 2006 (continued)

27 IMPACT OF NEW ACCOUNTING STANDARDS

The list of new accounting standards, amendments to published standards and interpretations on existing standards that are effective for the Company's accounting periods beginning on or after 1 January 2006 is set out in Note 2(a).

The following describes the impact of new standards, amendments and interpretations on the financial statements of the Company.

(a) Irrelevant or immaterial effect of financial statements

The adoption of FRS 1, 2, 3, 5, 101, 102, 108, 110, 116, 127, 128, 131, 132, 133, 136, 138 and 140 did not have a material impact on the financial statements of the Company. In summary:

- FRS 1, 2, 3, 102, 127, 128, 131, 138, 140 are not relevant to the Company's operations
- FRS 5 requires the Company to continue to depreciate its property, plant and equipment where assets identified for disposal do not meet the criteria set out by that standard; previously, depreciation ceased when the Board has plans to sell the assets
- FRS 101, 108, 110, 116, 132, 133 and 136 had no material effect on the Company's policies

Notes to the Financial Statements

31 December 2006 (continued)

27 IMPACT OF NEW ACCOUNTING STANDARDS (CONTINUED)

(b) FRS 121 "The Effects of Changes in Foreign Exchange Rates"

(i) Functional currency

Under FRS 121, the concept of functional currency is emphasised as being the currency of the primary economic environment in which the Company operates. The functional currency of the Company has been re-evaluated and there is no material impact to the financial statements of the Company as the functional currency of the Company remains at Ringgit Malaysia.

28 CAPITAL COMMITMENTS

Capital expenditure on property, plant and equipment approved by Directors but not provided for in the financial statements amounted to approximately:

	2006	2005
	RM	RM
Authorised and contracted for	282,000	332,781
Authorised but not contracted for	-	50,000

29 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The following table provides information about financial assets and financial liabilities, showing the weighted average effective interest rate and the maturity date of each class of interest bearing financial instrument in the balance sheet.

Notes to the Financial Statements

31 December 2006 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk (Continued)

At 31 December 2006

	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying amount RM	Weighted average effective interest rate %
Financial assets						
Investments:						
- Malaysian Government Securities	-	-	22,330,182	-	22,330,182	3.82
- Shares quoted in Malaysia	39,974,192	-	-	-	39,974,192	-
- Real Estate Investment Trust quoted in Malaysia	1,173,292	-	-	-	1,173,292	-
- Corporate debt securities	-	13,394,952	25,172,385	43,907,642	82,474,979	6.64
- Fixed and call deposits	-	122,905,257	-	-	122,905,257	3.62
Loans	523,035	-	142,160	317,211	982,406	4.14
Other receivables	3,177,258	-	-	-	3,177,258	-
Cash and cash Equivalents	54,005	-	-	-	54,005	-
	44,901,782	136,300,209	47,644,727	44,224,853	273,071,571	
Other financial assets*					29,011,197	
Total financial assets					302,082,768	
Other assets					4,804,995	
Total assets as per balance sheet					306,887,763	
Financial liabilities						
Other payables	7,825,100	-	-	-	7,825,100	
Other financial liabilities*					104,861,392	
Total financial liabilities					112,686,492	
Other liabilities					52,212,509	
Total liabilities as per balance sheet					164,899,001	

Notes to the Financial Statements

31 December 2006 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)**(a) Interest rate risk (Continued)****At 31 December 2005**

	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying amount RM	Weighted average effective interest rate %
Financial assets						
Investments:						
- Malaysian Government Securities	-	-	22,430,804	-	22,430,804	3.82
- Shares quoted in Malaysia	37,991,143	-	-	-	37,991,143	-
- Loan stocks quoted in Malaysia	-	-	60,000	-	60,000	3.05
- Real Estate Investment Trust quoted in Malaysia	346,399	-	-	-	346,399	-
- Corporate debt securities	-	2,006,264	32,915,097	47,808,476	82,729,837	6.66
- Fixed and call deposits	-	114,213,223	-	-	114,213,223	2.94
Loans	597,684	-	123,613	340,498	1,061,795	4.29
Other receivables	3,658,025	-	-	-	3,658,025	-
Cash and cash Equivalents	154,565	-	-	-	154,565	-
	<u>42,747,816</u>	<u>116,219,487</u>	<u>55,529,514</u>	<u>48,148,974</u>	<u>262,645,791</u>	
Other financial assets*					<u>22,335,328</u>	
Total financial assets					<u>284,981,119</u>	
Other assets					<u>5,687,613</u>	
Total assets as per balance sheet					<u>290,668,732</u>	

Notes to the Financial Statements

31 December 2006 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk (Continued)

At 31 December 2005

	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying amount RM	Weighted average effective interest rate %
Financial liabilities						
Other payables	6,267,926	-	-	-	6,267,926	
Other financial liabilities*					97,693,673	
Total financial liabilities					103,961,599	
Other liabilities					53,191,802	
Total liabilities as per balance sheet					157,153,401	

* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts and employee benefits is not shown as it is excluded from the scope of FRS 132 "Financial Instruments: Disclosure and Presentation."

(b) Credit risk

The Company's credit risk exposure is analysed as follows:

	Carrying amount	
	2006 RM	2005 RM
Analysed by rating:		
Unquoted corporate debt securities		
AAA	18,401,194	25,615,847
AA	37,460,822	35,652,888
A	26,612,963	21,461,102
	82,474,979	82,729,837
Loans		
No rating	982,406	1,061,795
	83,457,385	83,791,632

Notes to the Financial Statements

31 December 2006 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)**(b) Credit risk (Continued)**

The rating categories are based on the grading of reputable rating agencies.

	Carrying amount	
	2006	2005
	RM	RM
Analysed by industries:		
Unquoted corporate debt securities		
Manufacturing	6,089,377	7,015,757
Electricity, gas and water	14,284,631	10,583,004
Construction	16,676,642	23,004,938
Real Estate	12,149,654	11,288,029
Transport, storage and communication	5,860,687	5,381,768
Finance, insurance and business services	10,000,347	7,335,424
General commerce	3,491,398	3,307,237
Agriculture	5,249,900	5,282,640
Hospital	8,672,343	3,755,986
Government and government agencies	–	701,613
Mining and quarrying	–	5,073,441
	82,474,979	82,729,837
Loans	982,406	1,061,795
	83,457,385	83,791,632

Notes to the Financial Statements

31 December 2006 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Foreign currency risk

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date, stated in Ringgit Malaysia or foreign currency stated in Ringgit Malaysia equivalent, are set out below:

At 31 December 2006

	Ringgit Malaysia RM	Singapore Dollar RM	Total RM
Financial assets			
Investments:			
– Malaysian Government Securities	22,330,182	–	22,330,182
– Shares quoted in Malaysia	39,974,192	–	39,974,192
– Real Estate Investment Trust quoted in Malaysia	1,173,292	–	1,173,292
– Corporate debt securities	82,474,979	–	82,474,979
– Fixed and call deposits	122,905,257	–	122,905,257
Loans	982,406	–	982,406
Other receivables	3,177,258	–	3,177,258
Cash and cash equivalents	(2,661)	56,666	54,005
	<u>273,014,905</u>	<u>56,666</u>	<u>273,071,571</u>
Other financial assets*			<u>29,011,197</u>
Total financial assets			<u>302,082,768</u>
Other assets			<u>4,804,995</u>
Total assets as per balance sheet			<u>306,887,763</u>
Financial liabilities			
Other payables	<u>7,825,100</u>	–	<u>7,825,100</u>
Other financial liabilities*			<u>104,861,392</u>
Total financial liabilities			<u>112,686,492</u>
Other liabilities			<u>52,212,509</u>
Total liabilities as per balance sheet			<u>164,899,001</u>

Notes to the Financial Statements

31 December 2006 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)**(c) Foreign currency risk (Continued)****At 31 December 2005**

	Ringgit Malaysia RM	Singapore Dollar RM	Total RM
Financial assets			
Investments:			
– Malaysian Government			
Securities	22,430,804	–	22,430,804
– Shares quoted in Malaysia	37,991,143	–	37,991,143
– Loan stocks quoted in Malaysia	60,000	–	60,000
– Real Estate Investment			
Trust quoted in Malaysia	346,399	–	346,399
– Corporate debt securities	82,729,837	–	82,729,837
– Fixed and call deposits	114,213,223	–	114,213,223
Loans	1,061,795	–	1,061,795
Other receivables	3,658,025	–	3,658,025
Cash and cash equivalents	57,445	97,120	154,565
	<u>262,548,671</u>	<u>97,120</u>	<u>262,645,791</u>
Other financial assets*			<u>22,335,328</u>
Total financial assets			<u>284,981,119</u>
Other assets			<u>5,687,613</u>
Total assets as per balance sheet			<u>290,668,732</u>
Financial liabilities			
Other payables	<u>6,267,926</u>	–	<u>6,267,926</u>
Other financial liabilities*			<u>97,693,673</u>
Total financial liabilities			<u>103,961,599</u>
Other liabilities			<u>53,191,802</u>
Total liabilities as per balance sheet			<u>157,153,401</u>

* *Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts and employee benefits is not shown as it is excluded from the scope of FRS 132 "Financial Instruments: Disclosure and Presentation."*

Notes to the Financial Statements

31 December 2006 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair values

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date approximated their fair values, except as set out as below:

At 31 December 2006

	Carrying amount RM	Fair value RM
Investments:		
– Malaysian Government Securities	22,330,182	22,100,000
– Shares quoted in Malaysia	39,974,192	42,817,384
– Corporate debt securities	82,474,979	83,212,374
Loans	982,406	866,210
	145,761,759	148,995,968

At 31 December 2005

Investments:		
– Malaysian Government Securities	22,430,804	22,133,800
– Real Estate Investment Trust quoted in Malaysia	346,399	387,347
– Corporate debt securities	82,729,837	85,350,245
Loans	1,061,795	938,264
	106,568,835	108,809,656

The carrying amounts of Malaysian Government Securities and loans were not reduced to their fair values, as these investments are held for the long term.

30 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 January 2007.

Statement by Directors

Pursuant to Section 169 (15) of the Companies Act, 1965, we, Dato' Mohd Salleh Bin Hj Harun and Dato' Vaseehar Hassan Bin Abdul Razack, two of the Directors of RHB Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 29 to 78 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2006 and of its results and cash flows for the financial year ended 31 December 2006 in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 22 January 2007.

DATO' MOHD SALLEH BIN HJ HARUN

CHAIRMAN

DATO' VASEEHAR HASSAN BIN ABDUL RAZACK

DIRECTOR

Kuala Lumpur
28 February 2007

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965, I, Koh Heng Kong, being the officer primarily responsible for the financial management of RHB Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 29 to 78 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly)
declared at Kuala Lumpur)
on 28 February 2007) **KOH HENG KONG**
)
Before me,)

COMMISSIONER FOR OATHS
KADARIAH BTE ABDUL KARIM

Kuala Lumpur
28 February 2007

Report of the Auditors

to the Members of RHB Insurance Berhad

We have audited the financial statements set out on pages 29 to 78. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Company as at 31 December 2006 and of the results and cash flows of the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PRICEWATERHOUSECOOPERS

(No. AF: 1146)

Chartered Accountants

DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN

(No. 1867/09/08 (J))

Partner of the firm

Kuala Lumpur
28 February 2007

Group branch network

as at 31 March 2007

RHB INSURANCE BERHAD

1) Head Office

Level 8, Tower One, RHB Centre
Jalan Tun Razak, P.O. Box 10835
50726 Kuala Lumpur
Tel : (03) 9281 2731

2) Pulau Pinang

Unit No 10.04
10th Floor Menara PSCI
39, Jalan Sultan Ahmad Shah
10050 Penang
Tel : (04) 228 0311, 228 0115

3) Ipoh

No 37, Jalan Medan Ipoh 5
Bandar Baru Medan Ipoh
31400 Ipoh
Perak
Tel : (05) 546 3123, 546 2021

4) Kajang

No.7, Jalan Raja Haroun
43000 Kajang
Selangor
Tel : (03) 8733 6479, 8737 6067

5) Klang

No. 2A (Ground & 1st Floor)
Jalan Tiara 2D/KU1
Bandar Baru Klang
41150 Klang, Selangor
Tel : (03) 3342 0026

6) Melaka

No 339-A
Jalan Melaka Raya 3
Taman Melaka Raya
75000 Melaka
Tel : (06) 282 9978, 283 9460

7) Johor Bahru

Suite 18.06, Level 18
Johor Bahru City Square (Office Tower)
106 - 108, Jalan Wong Ah Fook
80000 Johor Bahru, Johor
Tel : (07) 223 4982, 223 7068

8) Kuantan

1st Floor
No 74/1, Jalan Teluk Sisek
25000 Kuantan
Pahang
Tel : (09) 516 1749, 515 7115

Group branch network

as at 31 March 2007 (continued)

9) Kota Bahru

Lot 344, Ground Floor
Jalan Sultan Yahya Petra
15200 Kota Bharu
Kelantan
Tel : (09) 746 1611

10) Kota Kinabalu

1st Floor
No 78, Jalan Gaya
88000 Kota Kinabalu
Sabah
Tel : (088) 216 192, 216 193

11) Kuching

G8 & 108, Ground & 1st Floor
Crown Towers
No.88, Jalan Pending
93450 Kuching
Sarawak
Tel : (082) 482 642, 482 643

12) Sandakan

Ground Floor, Block 11, Lot 8
Bandar Indah, Mile 4, North Road
90000 Sandakan
Sabah
Tel : (089) 235 893, 235 898

13) Sibu

No.91, Ground Floor
Jalan Kampong Nyabor
96000 Sibu
Sarawak
Tel : (084) 331 660, 331 876

